

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED
JAN 23 3 04 PM '93

POSTAL RATE AND FEE CHANGES, 1997

)
)
)
Docket No. R97-1

UNITED STATES DEPARTMENT OF COMMERCE
OFFICE OF THE SECRETARY

**RESPONSES OF
DOW JONES & COMPANY, INC. WITNESS SHEW TO
INTERROGATORIES OF
UNITED PARCEL SERVICE
(UPS/DJ-T1-1-4)
(January 29, 1998)**

Pursuant to the Commission's Rules of Practice, Dow Jones & Company, Inc. ("Dow Jones") hereby replies to the interrogatories posed by the United Parcel Service (UPS/DJ-T1-1-4) on January 15, 1998.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



Michael F. McBride
Samuel Behrends IV
Brenda Durham
Joseph H. Fagan
LeBoeuf, Lamb, Greene & MacRae, L.L.P.
1875 Connecticut Avenue, N.W., Suite 1200
Washington, DC 20009-5728
(202) 986-8000 (Telephone)
(202) 986-8102 (Facsimile)

January 29, 1998

Attorneys for Dow Jones & Company, Inc.

**RESPONSE OF DOW JONES & COMPANY, INC. WITNESS SHEW
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/DJ-T1-1. (a) Please confirm that the costs for postal employees not handling mail are primarily for one of three activities: moving empty equipment, breaks/personal needs, and clocking in/clocking out. If not confirmed, please explain.

(b) Please explain how the costs associated with these three activities "may not be a legitimate cost of *any* service" (page 22, line 9, of your testimony) (emphasis supplied).

RESPONSE:

(a) I do not know – indeed, it is not clear that anyone knows – what actually accounts for the high proportion of time that Postal Service clerks and mail handlers are reported to be "not handling mail." According to the tally reports for fiscal 1996, some 40% of the sample of mail clerks and handlers were classified as not handling mail at the times that their activities were randomly monitored.¹ Between 1986 and 1996, the sampled clerks and mail handlers reported to be on break, moving empty equipment or clocking in and out, expressed as a percent of direct tallies, rose by more than half, from 20.8% in 1986 to 31.5% in 1996.²

What accounts for the frequency of employees not handling mail seems to be a matter of dispute, centering on whether the substantial proportion of time that clerks and mail handlers are not handling mail reflects excessive staffing and therefore unnecessarily high service costs. Those who deny overstaffing point to the explanations provided by the IOCS reports themselves, which classify those not handling mail into categories of activities such as clocking in and out, moving empty equipment, window service and "general services." But the IOCS system for classifying those not handling mail does not include categories such as "employee idle" or "employee has no work to do," so an underemployed clerk or mail handler would be placed in a category that obscures the actual reason the employee was not handling mail. In brief, the

¹ From USPS-LR-H-23, calculated to exceed 42%, as reported in MPA-T-2, Docket No. R97-1, at 12.

² Derived from USPS Cost Segments and Components Report for FY 1986 to FY 1996.

**RESPONSE OF DOW JONES & COMPANY, INC. WITNESS SHEW
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

current IOCS system of activity codes related to clerks and mail handlers found not handling mail seems incapable of revealing the extent of overstaffing within mail processing activities.

That limitation creates serious problems not just for efficient planning of future staffing levels, but also for determining individual service costs. For excessive staffing may not affect all cost pools equally. It may lead to a concentration of employees "not handling mail" clocked into cost pools where underemployed staff are less conspicuous and, in particular, are a smaller drag on productivity statistics. But that, in turn, implies that the cost pool into which someone not handling mail is clocked may reveal less about service cost responsibility than about the pool's ability to harbor underemployed labor inconspicuously.

(b) This question appears to misrepresent my testimony. The sentence from my testimony that is partially quoted here reads, in full, "Indeed, staff 'not handling mail,' which accounts for some 40% of all mail processing costs, remains something of a mystery, and much of it may not be a legitimate cost of *any* service." My testimony did not discuss whether potentially questionable costs might be associated with specific explanations offered for not handling mail (e.g., breaks/personal needs, clocking in/clocking out, moving empty equipment). There was no apparent reason to address that matter, partly because it is unclear how much confidence can be attached to the results of the current system for classifying what people are doing when not handling mail. What my direct testimony did say is that "much" of the cost of not handling mail may not be a legitimate cost of *any* service.

My basis for saying that was twofold. First, the high and increasing proportion of clerks and mail handlers reported to be not handling mail (over 40% in 1996 versus less than 30% a decade earlier) suggests to some observers that the Postal Service may have more employees than it needs. In other words, some costs incurred by the USPS may be unnecessary. Second, if cost information is to provide a useful basis for setting rates, costs for which no service is causally responsible should not be attributed to any individual service.

**RESPONSE OF DOW JONES & COMPANY, INC. WITNESS SHEW
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/DJ-T1-2. You state that "For the CPP [Cost Pool Proportionality] assumption to be correct, the cost of mixed mail and of staff not handling mail in any one cost pool must be (a) unrelated in any informative way to the activities in any other cost pool and (b) distributed identically to the documented costs within the cost pool" (page 25, lines 7-11, of your testimony).

(a) If the cost of mixed mail and of staff not handling mail in any one cost pool were more related to the costs of direct mail in that cost pool than to direct mail in all cost pools, would not the CPP assumption be an improvement over the existing Postal Service LIOCATT system? If you disagree, please explain.

(b) If the cost of mixed mail and of staff not handling mail in any one cost pool were distributed more like the costs of direct mail in that cost pool than like direct mail in all cost pools, would not the CPP assumption be an improvement over the existing Postal Service LIOCATT system? If you disagree, please explain.

(c) Is it not possible for the CPP assumption to be an improvement over the existing assumptions inherent in the Postal Service LIOCATT system without the CPP being a perfect assumption? If you disagree, please explain.

RESPONSE:

(a) (b) Since parts (a) and (b) of this question are identical, with the negligible exception that the phrase "more related to" in (a) is replaced by "distributed more like" in (b), I will address the questions together in the interest of brevity.

First, though, it may be helpful to touch upon a preliminary matter. This question seems to envision that there is a unique measure of how similar two distributions are. That, however, is not the case. Whether or not one pair of variables is "more related" or "distributed more like" another pair of variables depends on the criteria used to define "more related" or "distributed more like." This point is not merely of academic significance, as would be recognized had data been developed that would actually allow the comparisons hypothesized by this question. As a simple example, suppose Distribution B is found to be "more like" Distribution A with respect to half the postal services, but Distribution C is "more like" Distribution A with respect to the other half. Or suppose that B is only slightly "more like" A with respect to all but one service, but for

**RESPONSE OF DOW JONES & COMPANY, INC. WITNESS SHEW
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

that one service C is far more like A than is B. Whether, overall, B or C is "more like" A cannot be determined without introducing explicit criteria for measuring similarity.

Does it follow that the CPP assumption is an improvement on the existing LIOCATT system as long as, by some agreed upon criteria, the cost of mixed mail and of staff not handling mail in each cost pool is "more related/distributed more like" the costs of direct mail in the cost pool than to direct mail in all cost pools? No.

The reason is simple. The ultimate objective is to estimate accurately the cost of each postal service, which is to say its cost aggregated over all cost pools. As a result, the relative performance of CPP and LIOCATT depends on not only the size of their errors in assigning costs within each individual cost pool, but also the extent to which errors for the same service in different cost pools offset each other.

To take a simple example, assume as this question conjectures that within each cost pool the CPP assumption more accurately assigns the cost of mixed mail and not handling mail to individual services than does LIOCATT. But suppose in addition that for any particular service CPP consistently overstates or understates its attributable share of the costs in a pool, whereas LIOCATT produces for each service a set of pool-specific errors that offset each other. Then even if CPP produced better results at the level of the cost pool, LIOCATT would provide more accurate estimates of service cost, which is the relevant consideration in evaluating the performance of a cost methodology.

The fundamental problem in evaluating cost methodologies in this proceeding, however, seems to me less related to conceptual matters than to the absence of facts. The hypothesized superiority of CPP embedded in parts (a) and (b) of the question above reflect conjectures concerning the relative performance of the two competing methodologies that are just that – pure conjecture. The fundamental deficiency of Degen's methodology is precisely that it proposes to introduce a complex set of seemingly arbitrary untested assumptions as a means of determining service costs.

**RESPONSE OF DOW JONES & COMPANY, INC. WITNESS SHEW
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

(c) It is unrealistic to expect any set of assumptions to produce figures for service costs that are perfectly accurate. As for how the performance of the CPP assumption compares with the current LIOCATT system, there are three possibilities: (1) CPP is superior, (2) the performance of the two is equal, or (3) LIOCATT is superior. The litmus test, obviously, is to examine the actual performance of the alternative methodologies by determining the true service responsibility for the cost of mixed mail and not handling mail and comparing it to the predictions made by CPP and by LIOCATT. That has not been done. Short of that, it may be possible for individuals with extensive experience of Postal Service operations and data to offer helpful intuitions about the comparative performance of alternative assumptions for assigning the costs of mixed mail and not handling mail. But that can never be as satisfactory as having the actual facts at hand, and so the long-run solution is to create a system for collecting cost information that will permits costs to be assigned on the basis of fact rather than disputed assumptions.

**RESPONSE OF DOW JONES & COMPANY, INC. WITNESS SHEW
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/DJ-T1-3. Please confirm that the testing regime you describe on pages 26-27 of your testimony could not have been performed with existing data and that a special study would need to be performed. If not confirmed, please explain.

RESPONSE:

Testing any new set of assumptions for distributing cost requires a "special study." If it is felt worthwhile to invest in creating and applying a new set of assumptions, then surely it should be worthwhile to determine whether the new assumptions constitute an improvement over what they replaced. If testing discloses that new assumptions perform worse than the assumptions currently in use, then the loss associated with investing in the new methodology is limited to the money spent on the failed effort, since (presumably) the new assumptions will not be used. But not testing runs the risk of a far worse outcome. For in that event, the danger is that the new assumptions will be adopted and will produce cost estimates that are worse than what they replace. Then the loss will not be confined to the money spent developing and applying the new assumptions, but will also encompass resource misallocations prompted by postal rates based on inferior cost estimates.

As for whether any test of Mr. Degen's assumptions could have been conducted using existing data, or instead would have necessitated new data collection efforts, that seems likely to depend on the particular test. My direct testimony did not propose a "testing regime," but merely sought to make clear that Degen's assumptions could have been tested. Thus, I observed that the CPP assumption that mixed mail costs have the same service distribution for each cost pool and item type as direct tallies can be tested directly in several ways. The particular example I supplied involved generating a random sample of the cost pools used by Degen and, for each selected pool, drawing a special random sample of clerks and letter-handlers clocked into the cost pool at randomly selected points in time. For each sampled employee, then, any mixed mail being handled would be fully counted, along with the direct tallies observed in the sample, so that the service distributions of direct and mixed tallies for each sampled pool could be compared

**RESPONSE OF DOW JONES & COMPANY, INC. WITNESS SHEW
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

to test Mr. Degen's CPP assumption. My purpose was simply to demonstrate the feasibility of testing his assumptions, so there was no reason to try to identify all of the alternative ways that Mr. Degen's assumptions might be tested. Hypothesis testing, when done well, can require a great deal of ingenuity, particularly if there is a reluctance to collect "new" data. My expectation is that it would be difficult to avoid collecting new data if Mr. Degen's assumptions were to be subjected to a reasonably conclusive test. But the need to collect new data can scarcely be an excuse not to test his assumptions.

**RESPONSE OF DOW JONES & COMPANY, INC. WITNESS SHEW
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/DJ-T1-4. Please refer to page 26, lines 17-18 of your testimony, where you state that "the proportion of employees found not handling mail should systematically fall as output (e.g., total pieces handled) rises towards its peak."

(a) Would you expect the proportion of employees "moving empty equipment" (Activity Code 6523, a component of not handling mail) to systematically fall as output rises? Please explain your answer, making reference to Postal Service operating procedures if necessary.

(b) Would you expect the proportion of employees on "break/personal needs" (Activity Code 6521, a component of not handling mail) to systematically fall as output rises? Please explain your answer, making reference to Postal Service operating procedures if necessary.

(c) Would you expect the proportion of employees "clocking in or clocking out" (Activity Code 6522, a component of not handling mail) to systematically fall as output rises? Please explain your answer, making reference to Postal Service operating procedures if necessary.

RESPONSE:

(a) (b) (c) I have no expectation concerning whether the proportion of employees assigned Activity Codes 6521-6523 falls as output rises. That is an empirical matter, and making assumptions about it seems a poor substitute for finding the facts. Regardless of what Postal Service operating procedures may seem to imply, I would encourage the USPS to empirically investigate the issue.

DECLARATION

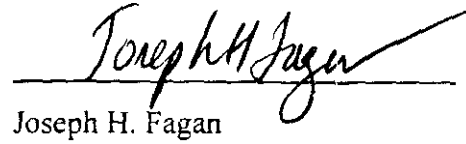
I, William B. Shew, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to read "William B. Shew", written over a horizontal line.

Dated: 1/29/98

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


Joseph H. Fagan

Dated: January 29, 1998